Catalogue of Federal, Provincial and Territorial Taxes on Energy Consumption and Transportation in Canada

May 2001

Department of Finance
Canada

Ministère des Finances
Canada

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Disclaimer

The document is intended as a general source of information on energy and transportation taxes imposed in Canada at the federal and provincial/territorial level. For specific information on the application of these levies in particular circumstances or to specific transactions, the reader should consult the relevant legislative provisions.

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TABLE OF CONTENTS

INTRODUCTION

This paper fulfills one of the commitments made in a document called *Sustainable Development Strategy*, which was released in December 1997 by the Department of Finance – that is, to develop a catalogue of available information on the structure and level of existing federal, provincial and territorial taxes on energy consumption and transportation in Canada. The first part of the catalogue gives an overview of federal, provincial and territorial taxes on fuel. This part also describes federal and provincial sales taxes and refers to related taxes such as those imposed on heavy automobiles and automobile air conditioners. The second part of the catalogue provides an overview of federal, provincial and territorial direct taxes on transportation in Canada.

This catalogue, together with two previously released reports describing the tax treatment of virgin versus recycled materials[1] and renewable versus non-renewable resources,[2] will help to build the knowledge base on the structure of taxation in areas pertinent to environmental concerns.

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1 Natural Resources Canada, Department of Finance Canada and Industry Canada, *Federal Income Tax Treatment of Virgin and Recycled Materials* (December 1996).

2 Natural Resources Canada and Department of Finance Canada, *The Level Playing Field: The Tax Treatment of Competing Energy Investments* (September 1996).

PART 1

STRUCTURE AND LEVEL OF EXISTING FEDERAL, PROVINCIAL AND TERRITORIAL TAXES ON ENERGY CONSUMPTION

1. Fuel Taxes

1.1 Federal Excise Taxes

Products Subject to Tax

The Excise Tax Act imposes taxes on leaded, unleaded and aviation gasoline, and diesel and aviation fuels.

The definition of gasoline includes gasoline type fuels for use in internal combustion engines other than aircraft engines. The definition of diesel fuel includes any fuel oil that is suitable for use in internal combustion engines of the compression-ignition type, other than any such fuel oil that is intended for use and is actually used as heating oil.

These taxes are payable by the manufacturer or producer at the time the goods are delivered to a purchaser or at the time of delivery of the gasoline or diesel fuel to a retail outlet by the producer or manufacturer. Excise taxes on fuel imports are payable by the importer at the time of importation, and exports are exempted.

Where a manufacturer or producer retains for its own use fuels it has manufactured or produced in Canada, the fuels are deemed to have been delivered to the purchaser at the time they are retained, and the sale price for the goods is deemed to be equal to the price that would have been reasonable in the circumstances if the goods had been sold on that date to a person with whom the manufacturer or producer was dealing at arm's length.

The excise tax on gasoline has been amended many times since it was implemented in 1975. The diesel fuel tax was introduced in 1985. The history of these taxes is described below.

Increases in Excise Tax Rates for Fuels

Excise Tax on Gasoline

The excise tax on gasoline was first announced in the 1975 federal budget. It was initially imposed at a rate of 10¢/gal., but was subsequently reduced to 7¢/gal.

In 1978 the 7¢/gal. tax on gasoline was extended to aviation gasoline.

On January 1, 1979, the 7¢/gal. rate was converted to the equivalent metric rate of 1.5¢/L.

The tax remained at that rate until September 3, 1985, when it was increased by 2¢ to 3.5¢/L.

In 1987 the rate was increased in two stages by a total of 2¢/L to the new rate of 5.5¢/L.

These increases were followed by an additional 1¢/L increase in 1988.

In the 1989 budget an announcement was made that leaded and unleaded gasoline would be taxed at different rates. The rate on unleaded gasoline was increased by 1¢/L to 7.5¢/L, while the rate on leaded gasoline was increased by 2¢/L to 8.5¢/L.

These rates were both increased by an additional 1¢/L in the 1990 budget.

In the 1995 budget the tax was increased by a further 1.5¢/L to the current rates of 10¢/L for unleaded gasoline and aviation gasoline and 11¢/L for leaded gasoline and aviation gasoline.

Excise Tax on Diesel Fuel

The excise tax on diesel fuel was announced in the 1985 budget. It was imposed at the rate of 2¢/L on diesel fuel and aviation fuel.

In 1987 the rate was increased in two stages by a total of 2¢/L to the new rate of 4¢/L.

The excise tax on diesel fuel has not increased since then.

Current Rates:

10¢/L	Unleaded gasoline and unleaded aviation gasoline
11¢/L	Leaded gasoline and leaded aviation gasoline
4¢/L	Diesel fuel and aviation fuel (other than aviation gasoline)

Exemptions and Rebates

Gasohol Exemption

Where gasoline or aviation gasoline has been blended with alcohol to produce a gasoline-alcohol fuel or an aviation gasoline-alcohol fuel, containing not less than 1.35 per cent alcohol by volume, the excise tax imposed on the gasoline or aviation gasoline is not payable on the portion of the blend that is equal to the percentage by volume of alcohol in the fuel. This exemption applies to ethanol and methanol (alcohols) produced from biomass or renewable feedstock, but does not apply to ethanol or methanol produced from petroleum, natural gas or coal.

Rebate to Certain Users

A rebate of 1.5¢/L of the excise tax imposed on gasoline is payable to a registered charity, Canadian amateur athletic association, or person who has been certified by a medical practitioner as suffering from a permanent impairment to locomotion to such an extent that the use of public transportation by that person would be hazardous. Application must be made within two years of the purchase.

Other Exemptions

Diesel fuel for use in the generation of electricity is exempt except where the electricity so generated is used primarily in the operation of a vehicle.

Aviation gasoline and aviation fuel for use in international flights are exempt.

Fuels for use in vehicles of foreign governments, international organizations and foreign armies are exempted in certain circumstances.

In the October 18, 2000, *Economic Statement and Budget Update*, the federal government announced, at a cost of $1.3 billion, a one-time relief of $125 per individual or $250 per family to assist low- and modest-income Canadians in dealing with their home heating expenses.

Diversions

Where a fuel is acquired exempt from tax for a particular use, or a rebate or refund is paid in respect of a fuel, and the fuel is diverted to a use for which an exemption, rebate or refund would not have been provided, the person diverting the fuel is required to repay the amount of the exemption, rebate or refund obtained.

1.2 Provincial and Territorial Product Taxes

In addition to these federal taxes, provinces and territories apply direct taxes on fuels, imposed directly on the consumer of fuel. The producer of fuel or the intermediate vendor collects the tax from the end-users. Imports of fuel into a province or territory are subject to tax. Taxes on imported fuel are generally payable by the importer at the time of the supply of the fuel. Exports from the province or territory are exempted from provincial/territorial tax.

The International Fuel Tax Agreement

The International Fuel Tax Agreement (IFTA) is an agreement among American states and Canadian provinces governing the uniform collection and distribution of fuel taxes paid by interjurisdictional motor carriers. All Canadian provinces participate in IFTA, but the territories do not.

The major benefit of being licensed under IFTA is that membership allows the carrier to significantly reduce the paperwork and compliance burden for fuel tax reporting. A carrier that is licensed under IFTA submits only one quarterly fuel tax return to its Administration covering the distance travelled in all IFTA jurisdictions, rather than preparing separate fuel tax reports for each jurisdiction. The Administration then refunds or collects the net fuel tax for all member jurisdictions.

1.2.1 Ontario

Products Subject to Tax

The Gasoline Tax Act imposes tax on gasoline used to generate power by means of internal combustion, on aviation fuel and on propane used in a motor vehicle. In addition, the Fuel Tax Act imposes tax on any other clear fuel used to generate power in a motor vehicle.

Rates:

14.7¢/L	Unleaded gasoline
17.7¢/L	Leaded gasoline
14.3¢/L	Clear fuel, except when received or used for railway equipment operated on rails in connection with a public transportation system
4.5¢/L	Fuel for railway equipment operated on rails in connection with a public transportation system
4.3¢/L	Propane for use in motor vehicles
2.7¢/L	Aviation fuel

Refunds, Exemptions and Rebates

The Fuel Tax Act provides exemptions for the following products or class of persons:

Products:

- gasoline, aviation fuel or propane on which the tax imposed by the Gasoline Tax Act has been paid;
- any product that is a solvent, naphtha or thinner and that is obtained from a petroleum origin or from the destructive distillation of coal, wood or wood products or that is produced by fermentation or by synthetic chemical reaction, except when it is blended, compounded or combined with any fuel taxable under the Act;
- any product which is composed wholly of the previous products, unless placed in a licensed motor vehicle;
- bunker fuel;
- ethyl alcohol, methyl alcohol, natural gas, manufactured gas or any product commonly known as liquefied petroleum gas used for the purpose of generating power by internal combustion;
- coloured fuel when used for other than the operation of a motor vehicle licensed under the Highway Traffic Act or operated for the pleasure and recreation of its owner;
- clear fuel delivered into the tanks of a motor vessel operating under the Canada Shipping Act (Canada); and
- clear fuel for use in service vehicles, aircraft or vessels of a visiting force.

Persons:

- diplomats or consulars and their families; and
- Indians, as defined in the Indian Act (Canada).

The Gasoline Tax Act provides exemptions for the same products and class of persons as those exempted under the Fuel Tax Act and, in addition, for the following products:

- distillate;
- products commonly known as diesel fuel, furnace oil, stove oil; and
- certain types of kerosene.

Rebates of taxes imposed on gasoline and fuel are available in the following circumstances:

- gasoline used in farm machinery, in other equipment not requiring a number plate under the Highway Traffic Act and in auxiliary equipment;
- gasoline used in unlicensed equipment for commercial, industrial or institutional purposes; and
- clear fuel used to operate auxiliary equipment where the same tank supplies fuel for the vehicle engine and the auxiliary equipment.

1.2.2 Quebec

Products Subject to Tax

The Fuel Tax Act imposes taxes on gasoline and fuel oil. Gasoline is defined as natural gas and any derivative of petroleum, natural gas or coal having a specific gravity of 0.8017 or less at a temperature of 15.556 degrees Celsius or that is declared by regulation to be gasoline, except natural or manufactured gas used as a fuel and delivered to the purchaser by means of a pipe distribution system. The definition of fuel oil includes any gas or liquid fuel that is not gasoline within the meaning of the Act that can be used for heating or operating any internal combustion engine, except natural gas or manufactured gas used as fuel and delivered to the purchaser by means of a pipe distribution system.

Rates:

15.2¢/L	Gasoline (including benzole, kerosene and kerosene-type aviation turbo-fuel, propane gas, butane gas and liquefied petroleum gas)
16.2¢/L	Fuel oil
8.2¢/L	Propane gas
3¢/L	Gasoline for aircraft engines or coloured fuel oil for railroad locomotive engines

Various reductions apply to the tax rates for fuels delivered in designated regions, border regions, peripheral regions, specified regions or regions bordering on peripheral or specified regions.

However, the gasoline tax is increased by 1.5¢/L when the gasoline is delivered in the area of jurisdiction of the Agence métropolitaine de transport [Metropolitan Transportation Agency].

Exemptions and Refunds

The following fuels are exempt from the tax:

- propane gas;
- butane gas and liquefied petroleum gas when used for supplying the heating system of an immovable or used for any purpose other than supplying an internal combustion engine;
- solvents derived from petroleum;
- gasoline intended for chemical use;
- coloured fuel oil used to operate a pumper truck while it is used to fight a forest fire, a commercial vessel, farm machinery, or a fishing boat or when used for any purpose other than supplying an internal combustion engine;
- bunker fuel and crude oil used for supplying the engine of a commercial vessel, any purpose other than supplying an internal combustion engine, or any other use determined by regulation;
- non-coloured fuel oil acquired or used in the cases, for the purposes and on the conditions provided by regulation;
- aviation fuel used on an international flight within the meaning of the regulations; and
- natural gas.

A tax refund is provided for the following uses of fuels:

- gasoline used to supply a farm machinery engine or commercial fishing boat engine;
- gasoline or fuel oil (bunker fuel or crude oil) that was used to supply a stationary engine;
- gasoline or fuel oil that was used as an ingredient in a product manufactured by a person in the course of his principal occupation; and
- gasoline or fuel oil that was used to operate a motor vehicle registered for use exclusively on private land or a private road, or used for farming, forest or mining operations.

Partial or Full Refund of the Tax

A public carrier who meets the requirements is entitled, upon application, to the reimbursement of that proportion of the tax that exceeds 66.67 per cent of the amount paid by him in the year on the fuel that was used to supply the engine of each bus while it was assigned to provide public transport.

An Indian or a Band is entitled, upon application, to the reimbursement of the tax paid by him or it on the fuel purchased for his or its own consumption from a fuel retail outlet operated on a reserve by a retail dealer who meets the requirements of this Act and the Act Respecting Petroleum Products and Equipment.

Other circumstances that are specifically provided for may give rise to a full or partial excise tax refund.

1.2.3 British Columbia

Products Subject to Tax

The Motor Fuel Tax Act imposes taxes on motor fuel products purchased in British Columbia. The tax rates on clear gasoline and diesel fuel vary across the province because additional fuel taxes are imposed in the Greater Vancouver transit service area and the Victoria regional transit service area to fund transit services.

Portions of the provincial fuel tax on clear gasoline and diesel fuel are also dedicated to provide funding for specific government organizations. Currently 1.25¢/L of the clear fuel tax rate is dedicated to the British Columbia Ferry Corporation (BCFC). To help finance major highway transportation projects, 3.25¢/L of the clear fuel tax is dedicated to the BC Transportation Financing Authority (BCTFA).

Rates:

11¢/L*	Gasoline except for the Greater Vancouver transportation service region and the Victoria regional transit service area
15¢/L – Vancouver	Gasoline in the Greater Vancouver transportation service region – 8¢/L dedicated to TransLink, a regional transportation authority
13.5¢/L – Victoria	Gasoline in the Victoria regional transit service area – 2.5¢/L dedicated to transit services
11.5¢/L	Diesel fuel except for the Greater Vancouver transportation service region and the Victoria regional transit service area
15.5¢/L – Vancouver	Diesel fuel in the Greater Vancouver transportation service region – 8¢/L dedicated to TransLink, a regional transportation authority
14¢/L – Victoria	Diesel fuel in the Victoria regional transit service area – 2.5¢/L dedicated to transit services
3¢/L	Coloured fuel, marine diesel fuel, locomotive fuel and aviation fuel (non-jet)
5¢/L	Domestic jet fuel – used on routes within Canada
2¢/L	International jet fuel
1.9¢/810.32 L	Natural gas used in pipeline compression on pipelines used to take marketable gas to market
1.1¢/810.32 L	Natural gas used in pipeline compressions to extract and transmit raw gas from wells to processing plants Natural gas used in stationary engines other than pipeline compressions, if not purchased
7% of the purchase price	Natural gas which is purchased but not used to compress gas or pump oil for transmission through pipes
7% of the purchase price	Propane and marine bunker fuel

* Includes the 3.25¢/L tax dedicated to the BCTFA and the 1.25¢/L tax dedicated to the BCFC.

Refunds, Exemptions and Rebates

The following are exempt from tax under the Motor Fuel Tax Act:

- fuel brought into the province in a supply tank or in a supplemental supply tank of an aircraft, ship, or motor vehicle and used in the operation of the conveyance;
- 85 per cent alcohol-based fuel, or compressed natural gas used to propel a motor vehicle;
- coloured fuel used by a bona fide farmer to operate a stationary or portable engine, a tractor off highway, a tractor on a highway when used by or on behalf of a farmer for farm purposes, or a family farm truck that is operated for family farm purposes;
- fuel sold on reserve to status Indians or Indian Bands;
- fuel purchased by diplomats under the Consular Tax Exemption Regulations; and
- fuel purchased by visiting forces as defined in the Visiting Forces Act.

Refunds or partial refunds of tax paid are available in the following circumstances:

- tax remitted on fuel sold to natives on reserve or to approved retailers operating on reserve;
- where clear fuel is used for the following purposes that are authorized to use coloured fuel: prescribed vehicles used off highway in the logging and mining industries; and commercial vehicles used off highway to transport drilling rigs or drilling equipment;
- tax paid on fuel purchased by persons with certain physical disabilities or handicaps – up to $400 per year;
- tax paid on fuel used for prescribed purposes to operate the engine of a stationary motor vehicle;
- tax paid on motive fuel for the operation of a private passenger motor vehicle;
- tax paid by domestic carriers on jet fuel used on international flights;
- tax paid by domestic carriers on jet fuel used to transport cargo on international flights;
- tax paid on fuel used in a family farm truck while being operated internationally for the purposes of the family farm if the truck has a family farm truck emblem; and
- tax paid on coloured fuel purchased by persons who qualify as bona fide farmers where the fuel is used for a prescribed purpose.

Lower-taxed coloured fuel (3¢/L) is permitted for operating:

- a ship;
- a tractor when used on other than a highway;
- an industrial machine when used on other than a highway;
- a prescribed type of motor vehicle when used by the logging industry other than on a highway;
- a prescribed type of motor vehicle when used by the mining industry other than on a highway in respect of a mineral mining operation;
- a stationary engine or portable engine;
- a road building machine within a highway project area;
- a commercial motor vehicle when used on other than a highway for the transportation of
  1. drilling rigs, drilling equipment and supplies,
  2. fuel, water, well-servicing equipment and supplies, and
  3. geophysical and seismic equipment and supplies for persons engaged in exploring or drilling for petroleum products;
- a tractor when used on a highway by or on behalf of a farmer for the purposes of his farm;

- a family farm truck being used for family farm purposes if the operator of the family farm truck is carrying a family farm truck emblem issued for that truck;
- a tractor, industrial machine or road building machine when proceeding to or returning from a location where the use of coloured fuel in the vehicle is otherwise authorized; and
- a vehicle that is ordinarily used for a purpose otherwise authorized by the Act in respect of which a temporary operating permit has been issued under the Commercial Transport Act.

1.2.4 Alberta

Products Subject to Tax

The Fuel Tax Act imposes tax on all fuel oil and aviation fuel. Aviation fuel includes both aviation gasoline and jet fuel.

Rates:

9¢/L	Gasoline and diesel fuel
6.5¢/L	Propane for motive use only
3¢/L	Locomotive fuel
1.5¢/L	Aviation fuel (aviation gasoline and jet fuel)
Nil	Ethanol, natural gas, and marked fuel[3]

Refunds, Exemptions and Rebates

The following are exempt from Alberta's fuel tax:

- fuel sold on reserve to status Indians or Indian Bands;
- fuel purchased by members of the diplomatic corps;
- fuel purchased by the federal government;
- fuel purchased by visiting forces personnel;
- fuel purchased by railway companies; and
- propane purchased from bottle-fill dispensers.

Tax-exempt marked fuel is authorized for use in:

- vehicles and equipment not requiring a licence and used exclusively off road by commercial off-road operations (eligible commercial off-road operations include: forestry, mining, seismic oil and gas well servicing and drilling, road building, and pipeline construction);
- farm machinery and plated vehicles used by eligible farmers;
- heating buildings; and
- unlicensed off-road equipment used by municipalities, hospitals, and schools.

[3] Methanol in gasoline is not tax-exempt as of May 1, 2000.

A rebate is available for the tax paid on gasoline, diesel and propane used for commercial off-road purposes in licensed and unlicensed vehicles. The Minister may also grant a rebate of the tax paid on fuel oil or liquid petroleum gas when used by a city, town, village, or farmer in certain prescribed circumstances.

In addition to being eligible to use tax-exempt marked gasoline and diesel fuel, farmers are entitled to receive a further 6¢/L price reduction on diesel fuel used to generate farm revenue. The additional 6¢/L reduction is provided under the Alberta Farm Fuel Distribution Allowance.

1.2.5 Saskatchewan

Products Subject to Tax

The Fuel Tax Act imposes tax on all fuels which may be used for propelling a motor vehicle.

Rates:

15¢/L	Gasoline, ethanol-blended gasoline, diesel fuel and locomotive fuel
9¢/L	Propane
3.5¢/L	Aviation gas
3.5¢/L	Turbo aviation fuel
Nil	Marked diesel and compressed natural gas

Refunds, Exemptions and Rebates

The following classes of persons or products are exempt from tax:

- propane and marked diesel fuel used exclusively for cooking, heating or lighting purposes and not used in an internal combustion engine;
- compressed natural gas used for any purpose;
- fuel purchased by federal government departments and agencies when purchased with a government credit card;
- any type of fuel that is not manufactured or designed for use in an internal combustion engine;
- marked diesel and propane when purchased by a farmer with a valid fuel tax exemption permit for use in unlicensed farm machinery and vehicles registered as “Class F” vehicles; and
- marked diesel when purchased by a commercial fisherman, logger, or trapper with a valid fuel tax exemption permit for use in unlicensed equipment used in their off-road primary production activities.

Refunds or partial refunds of tax paid are available in the following circumstances:

- tax paid on gasoline purchased by farmers, commercial fishermen, trappers and loggers. Effective January 1, 2001, farmers will be able to purchase bulk gasoline and propane tax-free (the individual making these purchases must have a Fuel Tax Exemption Permit issued by the Farm Fuel Program and must provide the number to the bulk fuel dealer when purchasing fuel). Farmers can still apply for a rebate for tax paid on farm-use fuel purchased at retail outlets;
- tax paid on fuel used as a direct ingredient in a manufacturing process; and
- tax paid by federal government departments or agencies.

A gasoline competition assistance program for gasoline and propane is also available for fuel dealers located near the Alberta and Manitoba borders. The level of assistance is based on the tax differentials between the provinces.

1.2.6 Manitoba

Products Subject to Tax

The Motive Fuel Tax Act and Gasoline Tax Act impose tax on all fuels which may be used for operating any internal combustion engine or for heating.

Rates:

11.5¢/L	Gasoline
3.2¢/L	Aircraft fuel
10.9¢/L	Motive fuel (diesel)
9¢/L	Gasohol
1.7¢/L	Bunker and crude oil for heating purposes
1.9¢/L	Marked fuel (diesel) for heating purposes
1.6¢/L	Propane and butane used for heating
5.7¢/L	Propane and butane used in a vehicle
4.3¢/kg	Propane and butane in portable cylinders
6.3¢/L	Locomotive fuel (diesel)

Refunds, Exemptions and Rebates

Exemptions are available for the following classes of persons and products:

- fuel sold on reserve to status Indians or Indian Bands;
- coloured fuel sold to farmers, fishermen, and trappers for prescribed purposes;
- coloured fuel sold to municipalities for firefighting and other municipal works equipment;
- coloured diesel fuel when purchased exclusively for off-road mineral exploration, and when used exclusively in off-highway mining activities, for the transportation of ore from a Manitoba mine to a Manitoba processing centre, or for the recovery of ore in mining operations;

- propane purchased solely to heat farm buildings or the farmer's residence, or to operate grain dryers on farmland;
- propane purchased by mining companies to dry mineral ore concentrates or for heating replacement air used to ventilate processing plants or mine shafts;
- aviation fuel purchased to transport the cargo component of direct trans-oceanic flights; and
- fuel sold to international ocean-going ships refuelling at Churchill.

Refunds of the tax are available in the following circumstances:

- tax paid on gasoline by trappers in the operation of a snowmobile;
- tax paid on gasoline by a fisherman in the operation of a boat, canoe, or snowmobile for fishing or transporting fish;
- tax paid on gasoline and motive fuel exported in bulk; and
- tax paid on gasoline used in a single seat aircraft designed and used for aerial spraying of farmland.

1.2.7 New Brunswick

Products Subject to Tax

The Gasoline and Motive Fuel Tax Act imposes tax on gasoline and fuels which may be used for operating any internal combustion engine or for heating, but does not tax manufactured gas that is used as a fuel.

Rates:

10.7¢/L	Gasoline except aviation fuel
2.5¢/L	Aviation fuel
13.7¢/L	Motive fuel (including diesel fuel)
4.3¢/L	Locomotive fuel
6.7¢/L	Propane

Refunds, Exemptions and Rebates

The tax can be refunded or exempted if used by farmers, wood producers, fishermen, aquaculturists, silviculturists, registered ships within the meaning of the Canada Shipping Act, in mining or quarrying operations, in the manufacturing of goods, for the heating or lighting of premises, for the heating of domestic use, in the generation of electricity for sale, or by certain classes of persons. Aviation fuel is exempt from tax by refund when used in international commercial flights. First Nations consumers may obtain gasoline and motive fuel exempt from tax from designated retailers on those reserves with which the province has agreements.

1.2.8 Nova Scotia

Products Subject to Tax

The Revenue Act imposes tax on gasoline, diesel and propane fuels.

Rates:

13.5¢/L	Gasoline
15.4¢/L	Diesel
7¢/L	Propane
0.9¢/L	Aviation gasoline
1.1¢/L	Gasoline or diesel oil for use in ships for commercial purposes

Refunds, Exemptions and Rebates

Exemptions are available for naphtha gasoline, furnace oil and stove oil used for cooking or heating purposes, public works or services, firefighting, commercial fishing, commercial ferries, aquaculture, railway locomotives, heating buildings, commercial farming, production or harvesting of forest products and manufacture or production of goods for sale.

Nova Scotia's 2000 budget includes a $50 heating oil rebate for low-income people.

Refunds are available for diplomats, visiting forces and all other activities enumerated above, as well as in specific circumstances.

The following activities are excluded from the exemptions or refund provisions: manufacture of ready mix concrete, repair or maintenance of any kind, salvaging of goods or materials, the production of non-renewable resources (e.g., quarrying, mining, oil exploration), and construction, among others.

There are no provisions for the sale of exempt fuel to First Nations persons; however, this matter is presently under discussion.

1.2.9 Prince Edward Island

Products Subject to Tax

The Gasoline Tax Act imposes tax on gasoline and diesel oil used in the operation of internal combustion engines and on aviation fuels.

Rates:

13¢/L	Gasoline and propane fuel
0.7¢/L	Aviation fuel
13.5¢/L	Diesel oil

Refunds, Exemptions and Rebates

The P.E.I. government provides fuel tax exemptions by permit only issued pursuant to the Gas Tax Act Regulations. Only the P.E.I. government is exempt without a permit.

No tax is payable on marked gasoline or diesel oil, naphtha gasoline or propane gasoline when not used to operate an internal combustion engine. Marked diesel oil may only be used in heating other than for the operation of an internal combustion engine. Marked gasoline may be used, among others, by the P.E.I. government, for farming operations, for fishing and aquaculture, for manufacturing, for sawmills, for golf courses, for curling, skating and hockey rinks, for grooming snowmobile trails, for the production of fertilizer, lime and feed grains, for commercial forestry, for custom potato-grading operations and for boats used for water tours.

1.2.10 Newfoundland

Products Subject to Tax

The Gasoline Tax Act imposes tax on gasoline and diesel oil used in the operation of internal combustion engines and on aviation fuels.

Rates:

16.5¢/L	Gasoline
15¢/L	Gasoline in the southern Labrador coastal area
Appropriate rate + 1.5¢/L	Leaded gasoline
16.5¢/L	Diesel fuel grade of gasoline
7¢/L	Propane fuel grade of gasoline
0.7¢/L	Aviation gasoline
3.5¢/L	Marine gasoline other than for pleasure crafts

Exemptions are available for a range of commercial activities, including farming purposes, commercial cutting and harvesting of logs, wood chippers and debarkers, fishing plants, stationary engines for landing fish, commercial fishing boats or vessels, cultivation or harvesting of aquatic plants or animals, vessels operating on scheduled routes in international or interprovincial trade, rock crushing, screening aggregates or producing asphalt, fixed or stationary manufacturing equipment, locomotives, generation of electricity, and certain mining activities. Also, furnace fuel, stove oil, kerosene, propane, butane or naphtha grades of gasoline used for a purpose other than the generation of power in an internal combustion engine are exempt from tax. Finally, Status Indians are exempt from the tax, but only on a reserve.

1.2.11 Northwest Territories

Products Subject to Tax

The Petroleum Products Tax Act imposes tax on liquid petroleum products on an *ad valorem* basis. Tax is calculated as a percentage of a prescribed taxable price. Liquid petroleum products do not include propane, butane or naphtha. The taxable price per litre of gasoline is determined by using the median price obtained by the Minister from periodic sampling of the retail price, excluding the tax, of regular unleaded gasoline in Yellowknife and is prescribed by the Minister. Where there is a change in the taxable price per litre of gasoline from time to time, the revised amount does not come into force until at least seven days after the registration of a regulation prescribing a different taxable price per litre of gasoline.

Rates:

10.7¢/L	Gasoline purchased at a location on the highway system
6.4¢/L	Gasoline not purchased at a location on the highway system
1¢/L	Aviation fuel
11.4¢/L	Locomotive fuel
9.1¢/L	Motive diesel
3.1¢/L	All other petroleum products and non-motive diesel

Refunds, Exemptions and Rebates

No tax is payable by hospitals, municipalities or visiting forces, or for the purpose of heating premises, lubricating, laying or sprinkling on roads or streets, or as cleaning fuels or solvents. Petroleum products purchased or imported for the operation of the Distant Early Warning System are also exempt from taxes. Status Indians can purchase fuel tax-free on a reserve.

1.2.12 Nunavut

The Petroleum Products Tax Act of the Northwest Territories has been adopted by Nunavut as their law.

1.2.13 Yukon Territory

Products Subject to Tax

The Fuel Oil Tax Act imposes tax on gasoline and diesel oil used in the operation of internal combustion engines and on aviation fuels.

Rates:

1.1¢/L	Fuel oil for use to propel an aircraft
7.2¢/L	Diesel oil
6.2¢/L	All other fuel oil

Refunds, Exemptions and Rebates

Exemptions are available for purposes of lubricating, laying or sprinkling on roads or streets, as cleaning fuels or solvents, medical or pharmaceutical purposes, cooking, and space heating of buildings. Also, under the Yukon Fuel Oil Tax Act, certain commercial users of fuel are exempt of tax and may be eligible to obtain tax-exempt permits according to the Yukon Fuel Tax Exempt Permit Program. Exempt categories are mining, trapping, logging, fishing, outfitting, farming, and stationary generators. The Government of Canada and authorized visiting forces are exempt from tax. Finally, no tax is payable on liquefied petroleum gas used for any purposes.

2. Sales Taxes

2.1 Federal Sales Tax (GST/HST)

The goods and services tax (GST) and harmonized sales tax (HST) are imposed by the federal government under the Excise Tax Act. Most provinces impose retail sales taxes on goods and some services sold for consumption in the province. In general, however, these taxes do not apply to motive fuels subject to provincial product taxes. The federal GST/HST applies to energy products in the same manner as for other goods.

Basic Features of the GST/HST

The GST/HST was designed to tax the value of final consumption of goods and services. The GST/HST is a value-added tax (VAT) and, as such, is applied only on the value added at each stage of production. In Canada, this is done by applying the tax to the full value of each good or service, with businesses able to claim input tax credits equal to the tax paid on inputs.

The main difference between a retail sales tax and a VAT is the way in which the tax is levied, i.e., single stage versus multi-stage. In addition, under a retail sales tax very few services are taxable, although in some provinces a limited number of services are taxed.

Definition of the Tax Base

The GST is imposed at a rate of 7 per cent (the HST is 15 per cent) on the supply of property or services provided in the course of commercial activity – vendors must charge tax on the sale of the good or service and are able to recover all tax paid in the course of business operations. The GST/HST applies to the total consideration paid for the supply of all goods or services in Canada, including fuel products taxed under the Excise Tax Act.

Exceptions to the taxable base are either zero-rated or exempt from tax.

Zero-Rated Goods and Services

The sale of the good or service is completely free of tax – there is no tax on the sale and all GST paid on inputs can be recovered through the input tax credit system.

Zero-Rated Categories:

- exports;
- basic groceries;
- prescription drugs;
- medical devices; and
- agricultural and fishing products.

Exempt Goods and Services

No tax is charged on the final sale of a good or service to consumers; however, the supplier is not able to claim input tax credits on purchases of inputs. Therefore, some tax is indirectly passed on to the final consumer.

Exempt Categories:

- financial services;
- health care and dental services;
- education;
- residential rent and housing;
- municipal transit;
- certain activities of charities and non-profit organizations; and
- governments and selected public sector organizations.

The GST/HST also recognizes special circumstances in various sectors of the economy.

Examples of Special Features:

- small business rule;
- housing;
- tourism;
- agriculture inputs; and
- public sector body rebates.

Liability for the Tax

Liability for the tax lies with the purchaser or recipient of the supply. The tax is collected by the vendor on behalf of the Crown.

2.2 Provincial Sales Taxes

2.2.1 Ontario

The Retail Sales Tax Act imposes tax on the purchase of most goods, certain services and insurance premiums in Ontario. The tax must be collected at the time of sale.

The general tax rate is 8 per cent for most goods with the following exceptions:

- 5 per cent for transient accommodation;
- 4 per cent for automobile insurance;[4]
- 10 per cent for admissions over $4.00;
- 10 per cent for alcoholic beverages sold under the authority of a licence issued by the Liquor Licence Board of Ontario under the Liquor Licence Act; and
- 12 per cent for alcoholic beverages sold under the authority of the Liquor Control Board of Ontario under the Liquor Control Act.

Exemptions are available for certain:

- consumer goods and services;
- agricultural goods;
- producers; and
- class of purchaser or vendor (e.g., diplomats, registered Indians).

Retail sales tax does not apply to motive fuels taxed under either the Fuel Tax Act or the Gasoline Tax Act. Exemption from the retail sales tax is also available for the following energy related products:

- coal;
- coke and wood, as defined by the Minister;
- natural gas and manufactured gas, as defined by the Minister;
- electricity for all purposes; and
- ethanol or methanol that is sold and purchased as fuel to generate power by internal combustion in any engine, provided that such fuel is delivered by the vendor thereof into the engine's fuel tank.

Under the Retail Sales Tax Act, a tax for fuel conservation applies to new passenger vehicles using 6.0 or more litres and to sport utility vehicles using 8.0 or more litres of gasoline or diesel fuel per 100 kilometres of highway driving. This tax applies to all new passenger vehicles whether sold, leased or rented in Ontario for a period of more than 30 days. Light trucks and vans, including mini-vans, are exempt.

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[4] The 2000 Ontario budget phases out the retail sales tax on vehicle insurance premiums as follows:

- 3 per cent effective April 1, 2001;
- 2 per cent effective April 1, 2002;
- 1 per cent effective April 1, 2003; and
- 0 per cent effective April 1, 2004.

The tax for fuel conservation is a flat tax that applies according to the following schedule.

Fuel Use Rating (L/100km)	Tax on New Passenger Vehicle	Tax on New Sport Utility Vehicle
under 6.0	$0 ($100 credit)	$0
6.0 to 7.9	$75	$0
8.0 to 8.9	$75	$75
9.0 to 9.4	$250	$200
9.5 to 12.0	$1,200	$400
12.1 to 15.0	$2,400	$800
15.1 to 18.0	$4,400	$1,600
over 18.0	$7,000	$3,200

This tax is to be included in the fair value for calculating Ontario retail sales tax.

Any person who buys a vehicle outside Ontario and brings it into Ontario for personal use must pay the appropriate tax for fuel conservation and 8 per cent retail sales tax that might apply.

A tax credit for fuel conservation (maximum $100) is available to buyers of new passenger vehicles that use less than 6.0 litres of gasoline or diesel fuel per 100 kilometres of highway driving. The credit does not apply to sport utility vehicles.

Ontario offers a refund of Ontario retail sales tax for vehicles that operate or are converted to operate exclusively on an alternative fuel (electricity, propane, natural gas, ethanol, methanol) within 180 days of purchase. Dual-powered vehicles that operate on one of the alternative fuels listed, but not using a mixture of an alternative fuel and diesel fuel, also qualify for the rebate.

Propane-powered vehicles get a rebate of the tax paid up to a maximum of $759, while vehicles operating on any of the other identified alternative fuels receive a rebate of up to $1,000.

2.2.2 Quebec

In addition to the provincial specific taxes on gasoline, Quebec also has a sales tax calculated on the sale price including excise tax, provincial product tax and the GST. The Québec sales tax (QST) was implemented on July 1, 1992. The QST is a tax on the consumption of goods and services in Quebec, just as the GST is in Canada. Designed to be paid by the ultimate consumer or purchaser, the QST is also, effective August 1, 1995, collected by businesses or vendors (also referred to as registrants) at each stage in the production or marketing of goods and services.

QST is calculated at the rate of 7.5 per cent on supplies of goods and services made in Quebec and is generally payable, like the GST, by the recipient of the supply at the time the consideration is paid or becomes payable. QST also applies to supplies of intangible property and real property.

Registrants collect tax on the value of the consideration for the supply and are entitled to input tax refunds (the equivalent of the GST's input tax credits) for the tax paid on their purchases. Registrants remit the net amount to the government for specific periods. As under the GST, most persons engaged in commercial activities are required to register. This includes, among others, persons who carry on a business in Quebec. All supplies attract QST except for exempt supplies and zero-rated supplies. As under the GST, no input tax credits are available for exempt supplies.

2.2.3 British Columbia

British Columbia's social service tax applies to all sales and leases of tangible personal property in the province. Tax also applies to taxable services, legal services, parking services within the Vancouver area, telecommunication services and propane.

The general tax rate is 7 per cent, with the exception of passenger vehicles valued at $32,000 or more, alcohol, and multijurisdictional conveyances. The Social Service Tax Act also imposes a $3 environmental levy on each new pneumatic tire purchased in the province for $30 or more. A $5 environmental levy applies to each new lead-acid battery weighing 2 kg or more.

Motive fuels taxed under the Motor Fuel Tax Act are exempt from retail sales tax. In addition to the exemptions provided for gasoline and fuel taxed under the Motor Fuel Tax Act, British Columbia permits a number of exemptions for heating and lighting fuels. In particular, an exemption exists for the following:

- electricity and natural gas when purchased for use in a residential dwelling unit;
- fuel oil when purchased for use in a residential dwelling unit;
- coal and coke; and
- materials and equipment as prescribed by regulation that are used directly or indirectly for the conservation of energy (i.e., thermal insulation materials, double glazed windows, propane conversion kits for automobiles).

A partial refund of tax is provided for new qualifying motor vehicles that are manufactured to operate on alternative fuels. Persons who purchase, or lease for at least one year, a qualifying alternative fuel vehicle other than a passenger bus or hybrid electric vehicle are eligible for a refund of up to $500 of the tax paid on the purchase or lease of that vehicle.

Persons who purchase, or lease for a period of at least one year, a passenger bus that is an alternative fuel vehicle are eligible for a refund of up to $5,000 of the tax paid on the purchase or lease of that vehicle.

In addition, a concession is provided to ensure that alternative fuel vehicles that are passenger vehicles, other than a hybrid electric vehicle, are not subject to a higher rate of tax (luxury tax) solely because the feature of enabling use of an alternative fuel makes them more expensive than a comparable gasoline or diesel model.

2.2.4 Alberta, Yukon Territory, Northwest Territories and Nunavut

These governments do not impose a general retail sales tax.

2.2.5 Saskatchewan

The Provincial Sales Tax Act imposes a 6 per cent sales tax which applies to the purchase, importation or rental of most goods and certain services.

Residential ready-to-move homes sold on a supply-only basis are subject to tax at the rate of 3 per cent on the total selling price, excluding the GST. Homes sold for non-residential purposes are subject to tax at the full rate of 6 per cent.

Fuels taxed under provincial fuel tax statutes are exempt from the provincial retail sales tax. Exemptions from the Provincial Sales Tax Act are also available for the following:

- electricity used for use in a residential dwelling unit or a farm; for heating a building where the heating is produced solely by the electricity; for operating irrigation systems; and for non-profit public curling rinks, skating rinks and pools;
- coal;
- fuel petroleum products used for heating and cooking in homes or buildings and heating in railway rolling stock; and
- electricity and fuel products used in a manufacturing process.

2.2.6 Manitoba

Tax at a rate of 7 per cent is applied to the selling price of tangible personal property sold in the province. Tax also applies to certain services, such as telecommunication services, repair services, and photography services.

Fuels taxed under provincial fuel taxation statutes are exempt from the provincial retail sales tax. Exemptions from the retail sales tax are also available for the following:

- coal, wood, and coke when used for a domestic purpose;
- electricity used for residential use;
- natural gas and propane used for home heating; and
- heating fuel oil.

2.2.7 Prince Edward Island

Prince Edward Island's sales tax is imposed on all purchasers, users or consumers of most goods and certain specified services. Tax at the rate of 10 per cent applies to the GST-included selling price of taxable goods and services. In addition to the 10 per cent tax, purchasers of automobiles and light trucks at a private sale where neither party to the sale is a GST registrant are required to pay an additional 2.5 per cent tax.

Prince Edward Island's sales tax does not apply to motive fuels taxed under other taxation statutes. Exemptions are also provided for the following:

- electricity and natural gas when purchased for use in a residential dwelling unit;
- fuel oil when purchased for domestic use; and
- coal and coke.

2.2.8 New Brunswick, Nova Scotia and Newfoundland

The 15 per cent harmonized sales tax (HST) applies in these three provinces. The HST is imposed under the same rules as the GST, and is administered for the provinces by the Canada Customs and Revenue Agency. For information on the application of the tax see Section 2.1 in Part 1.

3. Other Taxes

The federal government also imposes excise taxes on heavy automobiles and automobile air conditioners.

3.1 Heavy Automobiles

The Excise Tax Act imposes an excise tax on heavy automobiles, not including ambulances or hearses. This includes:

- automobiles, other than station wagons and vans designed primarily for use as passenger vehicles, in excess of 2007 kg ("automobile mass limit"); and
- station wagons and vans, designed primarily for use as passenger vehicles, in excess of 2268 kg ("wagon mass limit").

The excise tax on goods manufactured or produced and sold in Canada is payable by the manufacturer or producer at the time of delivery of the goods to the purchaser.

Tax on imports is payable at the time of importation but may be deferred in the case of automobiles imported by persons who manufacture automobiles in Canada until the imported automobiles are sold in Canada by those persons.

The rates are as follows:

(a) $30 for the first 45 kg in excess of the automobile or wagon mass limit;
(b) $40 for the next 45 kg;
(c) $50 for the next 45 kg; and
(d) $60 for each additional 45 kg.

The tax does not apply to:

- vehicles sold under conditions that would qualify the sale as a zero-rated supply under the GST;
- vehicles purchased or imported for police or fire-fighting services; and
- vehicles purchased by and for the personal or official use of foreign diplomats in Canada.

3.2 Automobile Air Conditioners

The Excise Tax Act imposes a tax of $100 on air conditioners designed for use in automobiles, station wagons, vans or trucks, whether factory installed or installed separately at or after the point of sale.

The excise tax is payable by the manufacturer or producer at the time of the delivery of the goods to the purchaser, or by the importer when the goods are imported into Canada.

The excise tax on air conditioners installed in imported vehicles is payable at the time of importation or at the time of sale of the vehicle by the manufacturer or importer.

The tax does not apply to:

- an air conditioner installed in an ambulance or hearse;
- an air conditioner sold, or permanently installed in a vehicle that is sold, under conditions that would qualify the sale as a zero-rated supply for the purposes of the GST; and
- an air conditioner purchased, or permanently installed in a vehicle that is purchased, by and for the personal or official use of foreign diplomats in Canada.

PART 2

STRUCTURE AND LEVEL OF EXISTING FEDERAL, PROVINCIAL AND TERRITORIAL TAXES ON TRANSPORTATION

1. Corporate Income Taxes

The federal corporate income tax is a levy imposed on corporations based upon taxable income calculated in accordance with provisions set out in the Income Tax Act.

All provinces and territories also impose a corporate income tax. Seven provinces and the territories are part of the Tax Collection Agreements; therefore their tax bases are automatically harmonized with the federal tax base and the collection of their corporate taxes is administered by the Canada Customs and Revenue Agency. Quebec, Ontario and Alberta have their own corporate tax systems, which they administer themselves. However, even for these provinces, departures from the federal tax base have been relatively few.

1.1 Tax Rates

1.1.1 General Rate

The basic statutory federal corporate income tax rate on taxable income was 38 per cent in 2000 (before the federal surtax and the provincial and territorial tax abatement). However, for income earned in Canada, this statutory rate is reduced by 10 percentage points to 28 per cent. As announced in the 2000 budget, the statutory rate on business income not eligible for special tax treatment has been further reduced in 2001 by 1 percentage point. In addition, there is a 4 per cent corporate surtax. As a result, the general tax rate in 2001 is 28.12 per cent.

As proposed in the *Economic Statement and Budget Update*, released October 18, 2000, the general federal corporate tax rate on business income not eligible for special tax treatment will be reduced by a further 6 percentage points: a reduction of 2 points, from 27 per cent to 25 per cent, effective January 1, 2002, a further reduction of 2 points effective January 1, 2003, and the remaining 2-percentage-point reduction effective January 1, 2004 (all prorated for taxation years that include those dates).

Provincial and territorial general income tax rates vary. As of January 1, 2001, the lowest rate, 9 per cent (on active business income), applies in Quebec while the highest rate, 17 per cent, applies in Manitoba, New Brunswick and Saskatchewan. Other provinces' and territories' rates vary between 14 and 16.5 per cent. The average combined federal/provincial/territorial basic tax rate is approximately 42 per cent.

1.1.2 Lower Tax Rates for Small Businesses

The federal tax system provides small and medium-sized businesses with a lower tax rate. Canadian-controlled private corporations (CCPCs) are eligible for a small business tax rate reduction, known as the small business deduction (SBD). This deduction lowers the basic federal tax rate on the first $200,000 of active business income of CCPCs to 12 per cent. When combined with the federal surtax, small businesses effectively pay federal corporate income tax at 13.12 per cent. In addition, as proposed in the 2000 budget, effective for 2001, the federal corporate income tax rate on income between $200,000 and $300,000 earned by a CCPC from an active business carried on in Canada is reduced to 22.12 per cent (21 per cent plus surtax). Income eligible for this lower rate is reduced to the extent that the corporation has manufacturing and processing (M&P) income subject to the reduced M&P tax rate or income from resource activities. The $200,000 and $300,000 limits on income eligible for these reduced rates must be shared among members of an associated group.

CCPCs with more than $15 million of taxable capital employed in Canada are not eligible for these rate reductions. In addition, CCPCs with between $10 million and $15 million of taxable capital employed in Canada have reduced access to these lower rates.

All provinces and territories, except for Quebec, provide lower tax rates for small CCPCs as well. They generally use federal limitations in determining eligibility for the lower rates (i.e., income and taxable capital limits) but have different small business rates. Ontario has provisions to claw back the benefit of its reduced corporate income tax once income exceeds its small business limit. Ontario and Alberta have announced their intention to phase in an increase in the small business threshold to $400,000, by 2005 for Ontario and by 2002 for Alberta.

In 1997 the federal SBD claimed by CCPCs amounted to some $2.7 billion. The transportation sector received about 3 per cent of this amount. This is significant considering that the transportation sector's taxable income represented only about 1 per cent of the total taxable income. In 1997 the SBD allowed the transportation sector to reduce its average federal income tax rate by 8 percentage points, an impact that is more than twice the reduction provided to other sectors by the SBD. Marine, truck and bus transport industries are the main beneficiaries of the SBD.

1.2 Investment Tax Credits

The transportation sector makes limited use of investment tax credits (ITCs). In 1997 firms in the transportation sector earned about $2.4 million in various forms of federal ITCs.

Most ITCs not used in a particular year may be carried over and claimed in subsequent or prior years. At the end of 1997 firms in the transportation sector had accumulated unused ITCs of approximately $91 million. In 1997 nearly $24 million of current and previous years' ITCs were applied against federal corporate income tax.

1.3 Adjustments in Determining Taxable Income

Businesses usually have some flexibility in calculating their income for financial statement purposes. For example, different businesses may decide to depreciate their capital assets over a shorter or longer time span. They may also use different methods of valuing their inventories. Therefore, to ensure that all businesses are taxed on the same basis and to improve the fairness of the tax system, corporate income tax is not based on reported financial statement profits but rather on taxable income, which must be calculated in accordance with the rules set out in the Income Tax Act.

Most larger businesses in the transportation sector are incorporated and are therefore subject to corporate taxes. However, many small businesses in this sector are unincorporated. As a result, the profits from these businesses are included in the income of the individual owners and are subject to personal federal, provincial and territorial income taxes. For the most part, the provisions applicable to the determination of taxable income of corporations apply equally to the determination of income from unincorporated businesses.

The significant adjustments to book profits that are made by corporations in the transportation sector in determining taxable income are deduction of losses of other years and deduction of capital cost allowances. A brief description of each of these items follows.

1.3.1 Losses of Other Years

Because of the cyclical nature of business income, the income tax system permits corporations to apply losses incurred in a particular year against taxable income of another year to reduce income tax otherwise payable. There are four types of losses that can be carried over but only two, non-capital losses and net capital losses, are of significance to the transportation sector.

A non-capital loss is a company's loss from business operations. Non-capital losses may be carried back three years and forward seven years to reduce or offset a corporation's taxable income.

A net capital loss arises from the disposition of capital property. This type of loss may be carried back three years and forward indefinitely but can only be applied against net taxable capital gains.

At the end of 1997 firms in the transportation sector had approximately $3.6 billion of accumulated non-capital and net capital losses available for application against income of subsequent years.

In 1997 corporations in the transportation sector reported $1.7 billion in taxable income before application of any previous years' losses. The use of previous years' capital and non-capital losses reduced the taxable income to $0.9 billion, representing a tax reduction of nearly $140 million.

1.3.2 Capital Cost Allowance

The cost of capital property generally cannot be written off in the year incurred. Rather, the cost, net of any government assistance provided, can only be depreciated over the useful life of the asset as capital cost allowance (CCA). To take into consideration that assets are acquired throughout the year, in the year of acquisition, a half-year rule applies to restrict the deduction of CCA relating to these assets to 50 per cent of the normal amount. In addition, available-for-use rules ensure that CCA is not claimed on assets not yet put in use unless they have been owned for two years. The cost of the asset acquired is allocated to a particular CCA class based upon the type of asset or its purpose or use. The class into which an asset is allocated determines the rate at which it is depreciated.

Most of the CCA classes are subject to the declining balance depreciation method whereby the eligible CCA rate is applied on the undepreciated balance at the end of the year. As a result, the CCA deduction decreases with time but the asset is never totally written off. In contrast, the straight-line depreciation method, which applies only to a few classes, applies the CCA rate to the original cost each year. As a result, the CCA deduction is constant over time and, after a certain number of years, the asset is totally written off.

Generally, a CCA class consists of a pooling of assets with no distinction being made between one asset and another. The CCA rate is applied on the depreciated value of the pool of assets. A terminal loss, equal to any remaining undepreciated balance in the class, may be claimed after the last asset has been disposed of. There is a recapture of CCA (i.e., an income inclusion) to the extent that a disposition results in a negative undepreciated balance in the pool.

In certain specific instances, the assets are not pooled but rather are segregated in separate classes. This is done to either permit an accelerated CCA rate to be applied to a specific asset (e.g., eligible Canadian-built ships) or to recognize recapture or terminal loss upon the disposal of each asset (e.g., rental buildings and certain office equipment subject to technological obsolescence).

There are nine CCA classes of particular importance to the transportation sector. It should be noted that, although some of these classes contain just a few types of assets specific to transportation, the majority include other assets not necessarily unique to the transportation sector (e.g., Class 1 includes dams, bridges, canals and most newer buildings).

Class 1: Railroad structures[5]

Class 1 provides a 4 per cent declining balance rate for railway track and grading, including components such as rails, ballast, ties and other track material. Railway traffic control or signalling equipment, but not including property that is principally electronic equipment or systems software, also qualify for this class. Class 1 includes about 55 per cent of all tangible railway assets subject to depreciation.

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[5] See Section 1.3.3.

Class 3: Trestles[6]

Class 3 provides a 5 per cent declining balance rate for railway trestles. This class represents only 2 per cent of all tangible railway assets subject to depreciation.

Class 4: Railway/tramway systems

Class 4 provides a 6 per cent declining balance rate for most railway assets acquired before May 26, 1976. It also applies to tramway or trolley bus systems not included in certain other classes.

Class 6: Railway locomotives

Class 6 provides a 10 per cent declining balance rate for railway locomotives but not including an automotive railway car. Class 6 includes about 10 per cent of all tangible railway assets subject to depreciation. The cost of aeroplane hangars is also included in this class. The 2000 federal budget proposed that the CCA rate for locomotives acquired after February 27, 2000, be increased to 15 per cent.

Class 7: Vessels

Class 7 provides a 15 per cent declining balance rate for vessels, except those eligible for the accelerated rate discussed in the next section and those included in Class 41 (used for exploration purposes). Spare engines, furniture, fittings, or equipment attached to the vessels are included in this class, but not radio-communication equipment. A vessel under construction also qualifies if not subject to Class 41. Marine railways are eligible for the 15 per cent CCA rate as well. Class 7, including vessels eligible for the accelerated CCA described below, represents about half of the tangible assets subject to depreciation in the marine transport industry.

Class 9: Aircraft

Class 9 provides a 25 per cent declining balance rate for aircraft including furniture, fittings or equipment. It also applies to spare parts for the aircraft or for attached equipment. Class 9 includes about 65 per cent of all tangible assets subject to depreciation in the air transport industry.

Class 10: Automotive

Class 10 provides a 30 per cent declining balance rate for automotive equipment, not including an automotive railway car acquired after May 25, 1976, a railway locomotive or a tramcar. Trailers, including those designed to be hauled on both highways and railways tracks, also qualify. Class 10 represents about 65 per cent of all tangible assets subject to depreciation in the trucking and bus transport industries.

[6] See Section 1.3.3.

Class 16: Automotive for lease/for hauling freight

Class 16 provides a 40 per cent declining balance rate for motor vehicles acquired for the purpose of renting or leasing, but not to any person for more than 30 days in any 12-month period. Class 16 also includes trucks and tractors designed for hauling freight that have a gross vehicle weight rating in excess of 11,788 kg (26,000 lb.) and are used primarily by the taxpayer or a person with whom the taxpayer does not deal at arm's length. Taxicabs are also eligible for the 40 per cent CCA rate. Class 16 represents about 20 per cent of all tangible assets subject to depreciation in the trucking industry.

Class 35: Railway car[7]

Class 35 provides a 7 per cent declining balance rate for railway cars and rail suspension devices designed to carry trailers that can be hauled on both highways and railway tracks. Class 35 represents almost 10 per cent of all tangible railway assets subject to depreciation.

The 2000 federal budget proposed that the CCA rate for railway cars and rail suspension devices acquired after February 27, 2000, be increased to 15 per cent. In certain circumstances, Class 35 railway assets that are the subject of a lease are already eligible for a 13 per cent CCA rate. The proposed 15 per cent CCA rate will apply to these assets only if the lessor elects to have the "specified leasing property" rules apply to the asset.

1.3.3 Additional or Accelerated Capital Cost Allowance

Additional CCA is provided to certain types of assets in order to stimulate capital investments or to support particular industries. Railway assets and Canadian-built ships benefit from additional CCA in excess of the standard rate applicable to their respective classes.

1.3.4 Railway Assets

Railway cars acquired prior to February 28, 2000, are generally included in Class 35 and depreciated at a rate of 7 per cent on a declining balance basis. However, some of these railway cars are eligible for additional allowances. Railway cars acquired by common carriers are eligible for an additional allowance of 3 per cent. Railway cars for rent or lease are generally eligible for an additional allowance of 6 per cent.

Other railway properties such as track, grading, control or signalling equipment are generally included in Class 1 and subject to a 4 per cent declining balance rate. Such railway properties acquired by common carriers are eligible for an additional allowance of 6 per cent.

Railway trestles are generally included in Class 3 and subject to a 5 per cent declining balance rate. Trestles acquired by common carriers are eligible for an additional allowance of 5 per cent.

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[7] See Section 1.3.3.

These additional allowances generally raise the CCA rates for railway cars acquired prior to February 28, 2000, track and other railway equipment to 10 per cent (see the table below). A separate class is prescribed for properties included in Classes 1, 3 or 35 and eligible for the additional CCA rate. Locomotives acquired prior to February 28, 2000 are not provided with any additional allowance since they are already eligible for a 10 per cent declining balance rate under Class 6.

Basic and Additional CCA Rates for Rail Assets (1999)

	CCA Rate*			
Class	**Basic**	**Additional**	**Effective**	**Asset Description**
1	4%	6%	10%	Sidings, tracks, grading, traffic control, signalling equipment
3	5%	5%	10%	Railway trestles
6	10%	none	10%	Locomotives
35	7%	3%/6%	10%/13%	Railway cars, suspension devices to carry trailers

* The 2000 federal budget proposed that the CCA rates for locomotives, railway cars and rail suspension devices acquired after February 27, 2000, be increased to 15 per cent. In certain circumstances, Class 35 railway assets that are the subject of a lease are already eligible for a 13 per cent CCA rate. The proposed 15 per cent CCA rate will apply to these assets only if the lessor elects to have the "specified leasing property" rules apply to the asset.

1.3.5 Canadian-Built Vessels

Vessels are generally included in Class 7 and are subject to a 15 per cent declining balance rate. Accelerated CCA on a straight-line basis at a maximum rate of $33^1/_3$ per cent of the capital cost of the property is available in respect of a vessel, including furniture, fittings, radio-communication equipment and other equipment if it was constructed and registered in Canada and not used for any purpose whatever before acquisition by the owner. These assets are depreciated over a four-year period, with $16^2/_3$ per cent written off in the first and fourth years and $33^1/_3$ per cent written off in the second and third years. A separate class is prescribed for properties eligible for this accelerated CCA rate.

1.3.6 Statistics on Transportation Assets

Although not exhaustive, the above CCA class description covers the majority of the investment made by firms in the transportation sector. As shown in the table presented in the Annex, additions to the previously mentioned CCA classes represented about 90 per cent of all additions in the transportation sector in 1997.

The table also shows, for each transportation sub-sector, a concentration of additions in a few classes. For airlines, additions to Class 9 represented 82 per cent of all additions in the airline industry. For railways, additions to classes 1 and 6 together represented 72 per cent of all additions in the railway industry. For ship operators, additions to class 7, including vessels eligible for accelerated CCA, represented 94 per cent of all additions in the marine industry. For truck and bus operators, additions to classes 10 and 16 represented over 80 per cent of all additions in the truck and bus transport industries.

2. Non-Income Taxes

2.1 Taxes and Levies Based Upon Payroll

2.1.1 Federal

Federal and provincial governments are the joint stewards of the Canada Pension Plan (CPP), a work-related pension scheme administered by the federal government. Quebec has a similar plan called the Quebec Pension Plan (QPP). Both employers and employees are required to contribute to a public pension plan, the QPP in Quebec and the CPP in the rest of the country. Contributions to both plans are identical. Employers and employees are subject to the same contribution rate of 4.3 per cent (2001). The premiums are calculated on earnings in excess of $3,500 up to a maximum of $38,300 per year (2001). As a result, employer contributions to CPP/QPP could represent up to $1,496 per employee in 2001.

Employers and employees are also required to contribute to the employment insurance (EI) program. The employee contributes 2.25 per cent of insurable earnings (2001) and the employer contributes 1.4 times the employee's premiums, that is 3.15 per cent of insurable earnings. The annual maximum insurable earnings are currently $39,000. As a result, employer contributions to EI could represent up to $1,228.50 per employee in 2001.

2.1.2 Provincial and Territorial

The provincial and territorial governments have two kinds of payroll taxes: a general payroll tax,[8] which is not allocated to any specific program, and workers' compensation, which is comparable to an insurance premium. All of the provinces and territories assess workers' compensation premiums but only four provinces and two territories have a general payroll tax.

In 1997 Canadian corporate employers paid about $13 billion in payroll taxes at the federal level and $8.5 billion at the provincial level for a total of $21.5 billion. Contributions by firms in the transportation sector represented approximately 3 per cent of this amount.

2.2 Capital Taxes

The federal government and several provinces impose a levy on capital used by corporations in their jurisdictions. The capital tax rates vary according to the jurisdiction and the nature of the corporations. Generally, corporations in the transportation sector are subject to the general capital tax rates.

Canadian corporations paid about $4.5 billion in general capital taxes in 1997, approximately $1.2 billion to the federal government and $3.3 billion to provincial governments. Of this total, roughly 3 per cent was paid by firms in the transportation sector.

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[8] Health levies raised by some provinces are considered as general payroll taxes since these levies are not allocated to a specific health fund but to their consolidated revenue fund.

2.2.1 Federal

A federal capital tax is applied to all corporations on taxable capital employed in Canada in excess of $10 million. The $10-million exclusion eliminates small corporations from liability for this tax; accordingly, this tax is called the "large corporations tax" (LCT). The effective rate of the LCT is 0.225 per cent.

The LCT affects the various transportation sub-sectors differently. Essentially, the air and rail transport industries are dominated by a few large corporations while other transportation sub-sectors, especially the trucking industry, are represented mostly by small and medium-sized corporations, many of which are too small to be subject to LCT. In 1997 the transportation sector paid about $36 million in LCT, of which more than 80 per cent came from the air and rail transport industries.

There are special rules for determining the taxable capital of non-residents that are subject to the LCT. Generally, the taxable capital employed in Canada of a corporation that was throughout the year not resident in Canada is based on the total value of the assets used to carry on any business through a permanent establishment in Canada. However, some types of assets as well as certain debts relating to a permanent establishment in Canada are deductible from the taxable capital base. Specifically, the carrying value of a ship, aircraft or personal property used to transport passengers or goods in international traffic is deducted from the taxable capital base. The provision applies only if the non-resident's home country gives Canadian residents substantially similar tax relief.

2.2.2 Provincial

Seven provinces (British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan) impose a general capital tax. Taxable capital bases, rates and thresholds from which rates start to apply vary from province to province. Quebec has the highest rate at 0.64 per cent and has no capital threshold while Nova Scotia has the lowest rate at 0.25 per cent and a $5-million capital threshold.

3. Other Specific Tax Provisions

There are several specific provisions in the tax system that relate directly or indirectly to the transportation sector. This section briefly describes some of these transportation-related tax provisions.

3.1 Specified Leasing Property Rules

To ensure fairness in the tax system, the Income Tax Act contains several provisions that restrict the deductibility of CCA from leasing and rental operations. One limitation is the specified leasing property rules. The specified leasing property rules basically restrict the CCA deduction of the lessor to the notional principal payments that would have been received if the lease had been structured as a loan.

These specified leasing property rules apply to most leased assets costing in excess of $25,000. A few exceptions from this restriction are provided where the CCA rate for the particular asset is not unduly accelerated vis-à-vis economic depreciation. The so-called "exempt properties" are not subject to the specified leasing property rules.

Several assets related to the transportation sector are exempted from this restriction including automobiles of all kinds that have a seating capacity of no more than nine persons, trucks or tractors for highway use, trailers designed to be hauled by a truck or a tractor, and railway cars.

3.2 Aviation Fuel Excise Tax Rebate

The aviation fuel excise tax rebate, which is effective for calendar years 1997 to 2000, provides excise tax rebates on the aviation fuel used by airline companies. Rebates are limited to $20 million per year per associated group of companies. In order to receive a rebate, a company must agree to reduce its non-capital losses by $10 for every $1 of rebate.

Losses exchanged for the rebate may be reinstated later provided that the airline repays the associated excise tax rebate previously received, including the payment of interest at the prescribed rate on unpaid taxes. However, no interest will be payable in respect of repayments of excise tax rebates for the period prior to January 1, 2000. Reinstated losses remain losses for the year in which they were originally incurred.

3.3 Exemption From Branch Tax

The branch tax is imposed on that portion of the income of non-resident corporations derived from the carrying on of business in Canada through a branch. If a Canadian branch ceases active business operations, non-residents are liable for tax on capital gains on dispositions of taxable Canadian property. The rate is 25 per cent but is frequently reduced by bilateral tax treaties to 15 per cent, 10 per cent or 5 per cent.

However, some corporations, including corporations whose principal business is the transportation of persons or goods, are exempt from the branch tax.

3.4 Exemption From Non-Resident Withholding

Canada, like other countries, imposes a withholding tax on various types of income paid to non-residents. The basis for this tax rests on the internationally accepted principle that a country has the right to tax income that arises or has its source in that country. The types of income subject to non-resident withholding tax include: certain interest, dividends, rents, royalties and similar payments; management fees; estate and trust income, alimony and support payments; and certain pension, annuity and other payments.

Over time, as the benefits of freer trade in capital, goods and services have been increasingly recognized, countries including Canada have adjusted their tariff and tax structures to remove impediments to international transactions. Part of this adjustment has been the reduction of non-resident withholding tax on certain payments.

Canada's statutory non-resident withholding tax rate is 25 per cent. However, the rate is lowered and exemptions provided for certain payments through an extensive network of bilateral tax treaties. These rate reductions, which apply on a reciprocal basis, differ depending on the type of income and the tax treaty country.

The Income Tax Act also provides for a number of unilateral exemptions from withholding tax including several that apply specifically to the transportation sector. Rent payments made to a non-resident for the use of an aircraft, including furniture, fittings, equipment attached and spare parts, are exempted from the non-resident withholding tax. An exemption is also provided for rent payments made to a non-resident by a railway company for the short-term use of railway rolling stock.

3.5 Income Tax Exemption on Income Earned by Non-Residents

Non-residents operating a ship in international traffic are exempted from Canadian income tax, as is done in other countries. Similarly, non-residents operating an airline in international traffic are exempted from Canadian income tax. In both cases, the exemption applies only if the non-resident's home country gives Canadian residents substantially similar tax relief.

3.6 Reserve for Quadrennial Surveys

A deduction is permitted for amounts prescribed as a reserve for expenses to be incurred for quadrennial or other special surveys required under the Canada Shipping Act or the regulations under the Act, or under the rules of any society or association for the classification and registry of shipping approved by the Minister of Transport for the purposes of the Canada Shipping Act. In this way the cost of such major expenditures, recurring periodically, may be spread over several preceding years instead of being deducted all in the year in which they are incurred.

3.7 Income Earned in a Province or Territory

Generally, the allocation of taxable income among provinces and territories is based on salaries and wages paid in each province or territory where the corporation had a permanent establishment and on gross revenues attributable to each province or territory where the corporation had a permanent establishment. However, due to the nature of their operations, airlines, railways, and ship, bus and truck operators use alternative methods of allocation.

An airline corporation allocates its taxable income among provinces and territories on the basis of its fixed assets, other than aircraft, in each province and territory and of revenue plane miles flown by its aircraft in provinces and territories in which the corporation had a permanent establishment. The revenue plane miles flown are weighted according to take-off weight of the aircraft operated.

A railway corporation allocates its taxable income among provinces and territories on the basis of equated track miles and of gross ton-miles in each province or territory. Equated track miles is an aggregate number made up of the number of miles of first main track and a percentage of other main track, yard tracks and sidings.

A bus or a truck operator allocates its taxable income among provinces and territories on the basis of the number of kilometres driven by the corporation's vehicles on roads in each province or territory in which the corporation had a permanent establishment and of salaries and wages paid to employees of its permanent establishment in each province or territory.

A ship operator allocates its taxable income among provinces and territories on the basis of port-call-tonnage and of salaries and wages paid to employees in each province or territory in which the corporation had a permanent establishment. Port-call-tonnage is the product of port calls made by the ship and the registered net tonnage of that ship.

ANNEX

Breakdown of Additions by Selected CCA Class – Transportation Sector and Sub-Sectors

(as a per cent of total additions in each sub-sector/sector, 1997)

	Transportation sub-sectors					Transportation sector
Class (declining balance rate)	Air	Rail	Marine	Truck	Bus	
1: Buildings, railroad structures[1] (4%)	0.7	62.2	0.7	5.6	2.9	23.1
3: Certain buildings, railway trestles[2] (5%)	0.1	2.4	0.1	0.2	1.9	1.0
4: Tramway/trolley bus (6%)	0.0	5.6	0.0	0.0	0.0	1.9
6: Railway locomotives (10%)	0.4	9.3	0.1	0.1	0.1	3.2
7: Vessels[3] (15%)	0.0	0.0	94.0	0.0	0.0	5.4
9: Aircraft (25%)	81.6	0.0	0.0	0.0	0.1	15.1
10: Automotive/light trucks/trailers (30%)	4.7	8.8	1.8	55.0	77.6	28.4
16: Automotive for lease/trucks/tractors (40%)	0.0	0.0	0.0	25.7	8.4	9.9
35: Railway cars[4] (7%)	0.0	7.5	0.0	0.0	0.0	2.5
Total	87.5	95.8	96.7	86.6	91.0	90.5

Source: Corporation Sample File, 1997.

[1] Railroad structures are entitled to an additional 6% CCA.
[2] Railway trestles are entitled to an additional 5% CCA.
[3] Canadian-built vessels are entitled to a $33^1/_3$% straight-line depreciation rate.
[4] Railway cars are entitled to an additional 3%/6% CCA.